

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 1999-389-E - ORDER NO. 1999-655
SEPTEMBER 16, 1999

IN RE: Application of South Carolina Electric & Gas) ORDER APPROVING
Company for Approval of Accelerated Capital) ACCOUNTING
Recovery of Generating Assets.) TREATMENT

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of South Carolina Electric & Gas Company (SCE&G or the Company) for approval of accelerated capital recovery of its Cope Generating Station.

The Company states that, by Order No. 96-15, dated January 9, 1996 and issued in Docket No. 95-1000-E, the Commission authorized the variable amortization of certain employee benefit costs of SCE&G. The Company also notes that the Commission has, under authority of the General Assembly, the power to establish a system of accounts to be kept by public utilities under its jurisdiction and prescribe the manner of keeping such accounts. The Commission from time to time has found it appropriate to prescribe special accounting procedures to fulfill its obligations and responsibilities under the grant of statutory authority.

Order No. 96-15 enabled the Company to vary the amount and duration of the amortization certain deferred early retirement, severance, and post-employment benefit costs depending on the level of other employee benefit costs so that the overall costs of

all these items remained constant. Because of this methodology, SCE&G has completed the write-off of these regulatory assets earlier than originally anticipated. The Company states that, at the time it proposed the variable amortization methodology, it expected that by the time the amortization was complete, other costs would have increased to largely offset any savings associated with the discontinuation of the amortization expense.

However, while costs like those related to investment in infrastructure and technology necessary to meet customer growth and improve customer service have risen, according to the Company they have not risen to levels that will offset now or in the future the variable amortization expense approved by the Commission in Order No. 96-15. The Company does face the prospect of substantial increases in other costs, such as the cost of complying with new and more stringent environmental regulations and the requirement of costly improvements to its hydroelectric facilities.

As SCE&G points out, legislation is being considered in South Carolina that would deregulate the generation of electricity. One of the primary concerns in the deregulation of electric generation is whether the market price of electricity after deregulation will be sufficient to allow utilities to recover their investments in electric generating assets. These generating plants were constructed and maintained to meet the utilities' statutory obligation to serve all customers located in their assigned service territories. According to SCE&G, accelerating the recovery of the cost of these assets will help mitigate this concern. This Commission has recognized the importance of dealing early with the problems associated with stranded cost recovery. In Order No. 96-15 the Commission adopted a plan for SCE&G "to mitigate the threat of stranded

investment caused by movements toward deregulation and open access....” The central feature of that plan was accelerated recovery of the cost of SCE&G’s nuclear generating plant. Many states including Georgia, Florida, North Carolina, Arkansas, Pennsylvania, Arizona, Maine, California, and Ohio have adopted measures to accelerate recovery of potentially above market capital investment in generation, as well as other costs, in anticipation of the deregulation of the electric industry.

SCE&G proposes that it be allowed to implement an accelerated capital recovery methodology whereby it could increase depreciation of its Cope Generating Station in excess of amounts that would be recorded based upon depreciation rates approved by the Commission in Order No. 96-15 (in Docket No. 95-1000-E). The Company’s Cope Generating Station, which went into service in January 1996, has a net investment per kilowatt of capacity considerable greater than that of the other generating facilities owned by the Company and is therefore exposed to greater potential for stranded costs. The amount of increased depreciation expense for Cope would be determined by the Company based on the level of total revenues and total operating expenses, but would not exceed \$36 million annually without the approval of the Commission. If the entire \$36 million was not used in any given year to accelerate capital recovery for Cope, the unused portion up to \$36 million could be carried forward for possible use in the succeeding year.

SCE&G states that this accelerated capital recovery would be accomplished through existing rates and the Company will not seek to increase electricity rates due to these increased expenses. The accelerated capital recovery expenses would be recorded

to the depreciation expense/accumulated depreciation accounts for Cope Generating Station. SCE&G would separately identify and quantify the annual and cumulative accelerated capital recovery amounts so that those amounts would be easily distinguishable from the depreciation expense and accumulated depreciation balances that result from the depreciation rates currently approved by the Commission.

Accordingly, SCE&G has requested that this Commission approve the accelerated capital recovery of the Cope Generating Station as described above beginning January 1, 2000 for a three-year period ending December 31, 2002. The Commission Staff has recommended approval of this plan.

Upon consideration of this matter, the Commission is of the opinion, and so finds, that the proposed accounting treatment contained in the Application filed by SCE&G and described above should be approved for the reasons stated in the Application. Given the uncertainty of the future of electric deregulation and the potential for the limitation of recovery of the Company's investments in its generating assets, we believe the accelerated capital recovery makes sense, especially since no electric rate increase for the Company's customers would result from the adoption of this plan. Accordingly, the Company's plan is approved as filed.

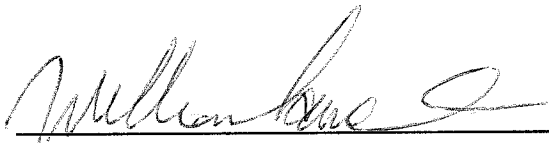
However, we would note that our approval of the proposed accounting treatment shall not be considered precedent, and Commission approval herein shall not prejudice the right of any party to take issue with the amount or with the accounting treatment of these costs in any future rate or earnings related proceeding. The amortization periods

for remaining unamortized balances, if any, would be subject to review and modification as appropriate.


Considering the reservation of these rights, the request for oral arguments or a hearing on this matter by the Consumer Advocate for the State of South Carolina is denied as premature.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


VICE Chairman

ATTEST:


Executive Director

(SEAL)